



Submission

To the exposure draft of the
Illegal Logging Prohibition Bill 2011

**Institute of Public Affairs
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1.0 Introduction

The Institute of Public Affairs welcomes the opportunity to make a submission to the exposure draft of the Illegal Logging Prohibition Bill 2011.

The trade of forestry products on international markets is becoming increasingly controversial.

For years environmental groups have been claiming that there is mass deforestation and illegal logging occurring in the developing world to create products for developed world consumers. In response environmental groups have sought certification of forestry products based on their expectations of environmental management.

But increasingly industry and unions are now doing the same. Cloaked behind environmental language industry and trade unions appear to now be colluding with the messages of green groups to advocate for green protectionism.

Green groups want less forestry in the developing world. Industry wants green protectionism to cut the volume of competitive imports. Unions want green protectionism to stop imports to ensure they can keep workers in high-paying jobs.

And through its *Illegal Logging Prohibition Bill 2011* the Australian government is buying their arguments hook, line and sinker.

The clear objective of the numerous attacks being made by industry, unions and green groups is to establish a level of protectionism to stop the importation of forestry products. But the benefits of doing so are highly circumspect.

And many aspects of these campaigns are deceptive and the IPA is of the view that the issues the Bill attempt to address are built on false foundations.

2.0 No environmental benefit

A study by the Centre for International Economics (CIE) commissioned by the Commonwealth Department of Agriculture, Fisheries and Forestry concluded that the introduction of trade restrictions on timber in line with the ALP's 2007 policy is ill-advised.¹

The study released in February 2010 concluded that the actual volume of illegal logging internationally appears to be grossly over-estimated and may only be between five and ten per cent. The study also found that only fifteen per cent of the world's timber is traded and Australia only imports 2.5 per cent, of which only ten per cent may be illegally logged.

In light of the CIE's argument that "Australia's imports account for about 0.034 per cent of global timber production, and 0.34 per cent of products incorporating illegally logged timber" the report recommended not to implement the proposed policy.

¹ The Centre for International Economics, 2010, "A Final report to inform a regulation impact statement for the proposed new policy on illegally logged timber", Prepared for the Department of Agriculture, Fisheries and Forestry, Canberra, Australia, January at http://www.thecie.com.au/content/news/Illegal_logging.pdf

The CIE particularly highlighted that the compliance costs for introducing the policy is likely to outweigh the economic benefit of doing so. Further, because Australia's share of globally imported timber is so low the impact of changing Australia's importing regime is unlikely to then affect decision making within the industry to reform and meet the standards the government would seek. Instead products restricted from the Australian market are likely to be imported elsewhere.

3.0 False claims of 'illegal' dumped goods

Claims that illegal logging is driving dumping of goods into Australia are false.

In August 2008 tissue manufacturers lodged an application for the Australian Customs Service (ACS) to assess whether dumping was occurring in the tissue sector. By November the ACS concluded it was and that it may be causing injury to the Australian industry.² In response the ACS recommended the imposition of tariffs against Chinese and Indonesian products to limit the impact on manufactures.

However in late 2009 the Australian Customs and Border Security Service (ACBSS) revisited their assessment and recommended the rescinding of anti-dumping measures. The assessment cited numerous reasons for doing so including the increased "competition from another industry member".³

While recognizing that some dumping was occurring, the ACBSS broadened their investigation and found that the basis of injury to the affected manufacturers was caused by other factors than dumping from China and Indonesia. The final conclusions, according to the report "in summary, Customs and Border Protection considers that:

- the goods exported to Australia from China and Indonesia was dumped; and
- the Australian industry producing like goods suffered injury; but
- the injury experienced by the Australian industry was caused more by other factors than by the dumping of the goods exported from China and Indonesia;
- injury to the Australian industry caused by dumping of the goods exported from China and Indonesia was not material; and
- material injury to the Australian industry by the good exported to Australia from China and Indonesia is not foreseeable and imminent".⁴

While not explicitly stating what the other factors were the report outlined the possibility of them being:

- "Appreciation of the Australian dollar against the United States (US) dollar which was argued must have affected the applicants' pricing decisions in 2007;

² Australian Customs Service, 2008, "Toilet paper exported from the People's Republic of China and the Republic of Indonesia", Canberra, Australia, at

<http://www.customs.gov.au/webdata/resources/notices/SEF138.pdf>

³ Australian Customs and Border Protection Service, 2009, "Reinvestigation of findings in Report to the Minister Rep 138, Certain toilet paper exported from the People's Republic of China and the Republic of Indonesia", Trade Measures Branch, Commonwealth of Australia, Canberra, Australia, December at

http://www.customs.gov.au/webdata/resources/files/MicrosoftWord-0912REP158-Reinvestigationtoiletpaper_public_.pdf

⁴ Australian Customs and Border Protection Service, 2009, "Reinvestigation of findings in Report to the Minister Rep 138, Certain toilet paper exported from the People's Republic of China and the Republic of Indonesia", Trade Measures Branch, Commonwealth of Australia, Canberra, Australia, December at

http://www.customs.gov.au/webdata/resources/files/MicrosoftWord-0912REP158-Reinvestigationtoiletpaper_public_.pdf

- The launch of a new product into the premium retail sector; and
- Shifting consumer preference”.⁵

Following the recommendation of the ACBSS the Federal government removed the tariffs delivering a hostile response from vested interests.

4.0 Vested interests benefit

Despite the Bill addressing a problem even the government’s own advisers believe is a non-issue; its passage will deliver benefits to vested interests.

Representing workers in the forestry sector the CFMEU’s membership base is directly threatened by any decline in the domestic industry.

As a result of the declining commercial position of domestic toilet tissue manufacturers from imports there has been increasing evidence that unions and industry are now colluding with the messages of eternal opponents of the forestry industry, environmental NGOs, to seek trade restrictions.

In 2008 a group called Wake Up Woolworths! (WUW!) was formed targeting Australia’s largest grocer, Woolworths Limited, to stop using imported toilet paper product sourced from Indonesia in its private label, *Select*.

The principle allegation was that importers were engaged in illegal logging in parts of Indonesia and may be selling illegally logged products. But digging deeper into the WUW! campaign the objective appears to have had little to do with improving environmental standards and had more to do with promoting environmentalism as a disguise to argue for protectionism.

In recommending that consumers stop buying Woolworths’ *Select* toilet paper, the campaign discourages consumers purchasing imported paper products to protect local industry.⁶ WUW! encouraged consumers to tell Woolworths stores to withdraw *Select* paper products, to tell other consumers to stop consuming *Select* products and to ask for “Australian made paper products ... (so thousands of Australian workers (are) paid properly ... (and) more of your money stays in Australia.”

WUW! was “primarily funded” by the CFMEU⁷ and managed by public relations firm, Fitzpatrick Woods. Principal consultant of Fitzpatrick Woods, Tim Woods, was a former official with the Pulp and Paper Workers’ Branch of the CFMEU in the Forestry and Furnishing Products Division.⁸

Fitzpatrick Woods has a history of clients in the forestry sector, including the CFMEU, to promote the industry and the worker’s interests, including the Australian Paper Industry Association.⁹

⁵ Australian Customs and Border Protection Service, 2009, “Reinvestigation of findings in Report to the Minister Rep 138, Certain toilet paper exported from the People’s Republic of China and the Republic of Indonesia”, Trade Measures Branch, Commonwealth of Australia, Canberra, Australia, December at http://www.customs.gov.au/webdata/resources/files/MicrosoftWord-0912REP158-Reinvestigationtoiletpaper_public_.pdf

⁶ Wake Up Woolworths, 2009, “Woolworths Select Brand Paper Products”, at <http://www.wakeupwoolworths.com/docs/woolworths-asia-pulp-paper.pdf>

⁷ Wake Up Woolworths, 2009, “Woolworths Select Brand Paper Products”, at <http://www.wakeupwoolworths.com/docs/woolworths-asia-pulp-paper.pdf>

⁸ Fitzpatrick Woods, 2010, “Our People”, at <http://www.fitzpatrickwoods.com.au/cms-our-people/index.php>

⁹ Fitzpatrick Woods, 2010, “Clients”, at <http://www.fitzpatrickwoods.com.au/cms-clients/index.php>

And, depending on the interest, the campaign was successful. Environmental concerns won because Woolworths worked with WWF and adopted their FSC certification standards in their tendering requirements for *Select* tissue products in 2009.

The union's strategy stumbled because no Australian forestry company had FSC certification. However, Woolworths broadened the certification requirements to source tissue products from sources meeting the Program for the Endorsement of Forest Certification (PEFC) standards.¹⁰

Facing competitive pressures industry, unions and environmental groups have also sought to influence the Australian political process.

As at August 2010 the CFMEU donated more than \$1.5 million to the ALP since 2004, including notably a \$38,000 donation in the 2006/07 financial year from its Forestry and Furnishing Products Division. Of that amount, the majority, \$28,000, was donated from the South Australian Branch of the Forestry and Furnishing Products Division of the CFMEU which has been at the forefront of the campaign to support trade restrictions.

Prior to the 2007 Federal election then Federal Labor Party Leader, Kevin Rudd MP, announced he would commit his government to "the greater policing and enforcement of an effective national ban on the sale of illegally logged timber imports".¹¹ This announcement followed significant concerns being voiced by environmental groups, the CFMEU and the Australian Plantation Products and Paper Industry Council (A3P).¹²

Under the *Illegal Logging Prohibition Bill 2011* it now appears the ALP has delivered for the CFMEU.

5.0 Protectionism harms consumers

Some Australians want products to meet their own expectations of environmental standards through arbitrary regulation. That can already be achieved through voluntary certification of products. Government-mandated certification is not necessary and is not cost-free.

Introducing trade restrictions will have a negative impact on Australia's economy. The history of Australia's liberalisation of tariffs is well known. Following reforms in the mid-late 1970s, through the 80s and 90s Australia's tariff walls have been dismantled. The only major remaining tariff barriers exist in the automotive and textile, clothing and footwear industries.

By introducing protections that limit imports the competition faced by Australia's industry will collapse and with it any downward pressure on prices. As a consequence the average price of tissue products will rise. Without any environmental benefit trade restrictions will simply increase the cost-of-living pressures already faced by Australian families.

Supermarket chains should also be wary. Coles and Woolworths have both developed commercial strategies to attract customers by cutting prices. Protectionism will undermine their commercial

¹⁰ Woolworths Limited, 2009, "Corporate Responsibility Report", Baulkham Hills, Australia, November 27 at http://media.corporate-ir.net/media_files/irol/14/144044/WOL202_CR09_LR_FA.pdf

¹¹ Australian Broadcasting Corporation, 2010, "Background Briefing: Timber Politics", Radio National, May 30, at <http://www.abc.net.au/rn/backgroundbriefing/stories/2010/2908767.htm>

¹² Australian Plantation Products & Paper Industry Council, 2007, "Bringing down the axe on illegal logging – a practical approach", Braddon, Australia, January 31, at <http://www.a3p.asn.au/admin/assets/pdf/Submissions%20and%20Reports/2007%20Submission%20-%20Illegal%20Logging.pdf>

strategies and increase the competitive pressure that relatively newer, lower-cost competitors can provide including ALDI and Costco.

6.0 Conclusions

The Illegal Logging Prohibition Bill 2011 is designed to combat a non-issue.

There is a concerning trend emerging collusion of messages by industry, unions and green groups to push for self-interest trade restrictions disguised as environmental concerns.

The campaigns to impose trade bans on imported timber and forestry products are a clear example. Based on independent analysis sought by the Federal government the actual problem is over-stated, Australia's imports are tiny and Australia's capacity to stop illegally logged timber through its trade policy is non-existent.

Yet the campaigns persist. And they are now focused on political and legal channels to secure their objectives.

Of particular concern, is the possible link between donations made by the Forestry Division of the South Australian Branch of the CFMEU to the ALP in light of their commitment to ban certain timber products.

And the impact of these policies cannot be ignored. Retailers who depend on low-cost products to compete, such as Coles and Woolworths, will lose their market advantage if they are limited to buying locally-produced goods. But the real cost will be pushed onto consumers who will face higher prices at the supermarkets to help protect the interests of industry and the unions.

About the Institute of Public Affairs

The Institute of Public Affairs, founded in 1943, is the world's oldest free market think tank. The IPA is a not-for-profit research institute based in Melbourne, Australia with staff and associates based around Australia.

Think tanks act as public policy incubators and develop public policy solutions. The objective of the IPA is to promote evidence-based public policy solutions rooted in a liberal tradition of free markets and a free society. The IPA achieves these objectives by:

- undertaking and disseminating research.
- participating in national and international policy debate through the media.
- engaging with opinion leaders, stakeholders and public policy makers.

All work completed by the IPA is published in the public domain for the consumption of governments, politicians, domestic and international policy makers and the public-at-large.

The IPA has a demonstrated track record of contributing to, and changing the terms of the public policy debate in Australia and internationally. In particular, in recent years the IPA has been at the centre of public discussion in Australia and in appropriate international fora on:

- Regulation
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- Intellectual property
- Water
- Energy
- Housing
- Industrial relations
- Taxation
- Investment